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## BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER  
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2006 JUL 14 A 9:44

AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
FAR WEST WATER & SEWER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS SEWER UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES FOR SEWER  
UTILTY SERVICE BASED THEREON.

Docket No. WS-03478A-05-0801

Arizona Corporation Commission

**DOCKETED**

JUL 14 2006

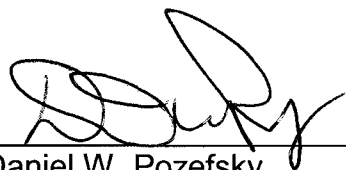
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**NOTICE OF FILING TESTIMONY SUMMARIES**

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the  
Testimony Summaries of William A. Rigsby, CRRA, and Rodney L. Moore in the above-  
referenced matter.

RESPECTFULLY SUBMITTED this 14<sup>th</sup> day of July, 2006.

  
Daniel W. Pozefsky  
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 14<sup>th</sup> day  
3 of July, 2006 with:

4 Docket Control  
5 Arizona Corporation Commission  
6 1200 West Washington  
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/  
9 mailed this 14<sup>th</sup> day of July, 2006 to:

10 Lyn Farmer  
11 Chief Administrative Law Judge  
12 Hearing Division  
13 Arizona Corporation Commission  
14 1200 West Washington  
15 Phoenix, Arizona 85007

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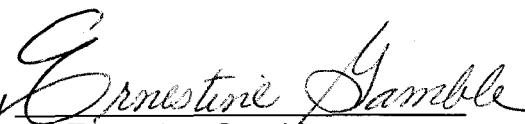
Chairman Hatch-Miller &  
Dean Miller,  
Aide to Chairman Hatch-Miller

Commissioner Mundell &  
Adam Stafford,  
Aide to Commissioner Mundell

Commissioner Spitzer &  
Philip Dion,  
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Commissioner Gleason &  
Ken Rozen,  
Aide to Commissioner Gleason

Commissioner Mayes &  
Matthew Derr,  
Aide to Commissioner Mayes

By   
Ernestine Gamble

**Far West Water & Sewer Company  
Docket No. WS-03478A-05-0801  
Rate Application**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the Direct and the Surrebuttal Testimony of RUCO witness William A. Rigsby, on Far West Water & Sewer Company's ("Far West" or the "Company") application for a permanent rate increase. A full discussion of the cost of capital issues associated with Far West's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

**COST OF CAPITAL:**

Capital Structure – Mr. Rigsby is recommending that the Commission adopt his hypothetical capital structure comprised of 40 percent debt and 60 percent common equity as opposed to the Company's capital structure comprised of 100 percent common equity.

Weighted Cost of Capital – Mr. Rigsby is recommending an 8.81 percent weighted cost of capital. Mr. Rigsby's recommended weighted cost of capital is based on the weighted hypothetical cost of debt and weighted cost of equity contained in his recommended capital structure for Far West.

## **SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)**

Cost of Debt – Mr. Rigsby is recommending that the Commission adopt a hypothetical cost of debt of 8.45 percent. Mr. Rigsby's recommended 8.45 percent cost of debt is comprised of the 6.45 percent average of the weighted costs of long-term debt of eight publicly traded water utilities (followed by The Value Line Investment Survey ) plus an additional 200 basis points.

Cost of Common Equity – Mr. Rigsby is recommending a 9.04 percent cost of common equity. Mr. Rigsby's 9.04 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. The data inputs for both of these models were obtained from the most recent (April 28, 2006) water industry update published by The Value Line Investment Survey.

**Far West Water and Sewer Company  
Docket No. WS-03478A-05-0801  
Rate Application**

**SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the Direct and Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The testimonies of Mr. Moore addresses the following issues:

**Rate Base**

Fair Value Rate Base – Mr. Moore stated the Company and RUCO are in substantial agreement with the adjusted fair value rate base.

**Operating Income**

Test-Year Depreciation Expense – Mr. Moore stated the Company and RUCO are in substantial agreement with the adjusted depreciation expense.

Property Tax Computation – Mr. Moore continues to advocate the appropriateness and superiority of the ADOR formula to accurately project future property taxes for ratemaking purposes. Mr. Moore asserts his testimonies demonstrate that RUCO property tax arguments are correct and should be used in this and future cases.

Rate Case Expense – Mr. Moore made a determination of what should be the financial burden on the ratepayers for costs incurred by the Company for filing this rate case application.

Revenue Annualization – No adjustment.

Remove Other Income/Other Expense – No adjustment.

Annualized Purchased Power – No adjustment.

Purchased Power – APS Increase – No adjustment.

Legal Expense – No adjustment.

Chemical Expense – No adjustment.

Postage Expense – No adjustment.

Reconnect Fees – No adjustment.

RUCO Adjustments To Test-Year Operating Expenses – Mr. Moore stated the Company and RUCO are in substantial agreement with RUCO's adjustment to remove unnecessary and/or inappropriate expense not required for the provisioning of wastewater service.

RUCO Capitalization Of Operating Expenses – Mr. Moore stated the Company and RUCO are in substantial agreement with RUCO's adjustment to these operating expenses.

Income Tax Expense – Mr. Moore's adjustment reflected income tax expenses calculated on RUCO's recommended revenues and expenses.

## Rate Design

Mr. Moore's proposed rate design is generally consistent with the Company's present rate design, but reflects RUCO's recommended revenue requirement and provides proof the design will produce the appropriate revenue requirement.

## Conclusions And Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
1. Percentage Increase In Average Typical Residential Customer's Monthly Bill	13.03%	7.75%

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
2. Recommended Revenue Requirement	\$1,763,859	\$1,691,662

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
3. Recommended OCRB/FVRB	\$1,827,684	\$1,815,563

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
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4.	Recommended Required Operating Income	
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	\$166,502	
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		\$159,951
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	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
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5.	Recommended Percentage Increase In Revenue Requirement	
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	20.57%	
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		15.63%
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